



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO  
607 North 8th Street  
BOISE, IDAHO 83702

MINUTES  
OF  
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:30 a.m. January 24, 2006. The following members were present:

Jody B. Olson  
Pamela I. Ahrens  
Clifford T. Hayes  
Jeff Cilek

Trustee J. Kirk Sullivan was absent and excused. Executive Director Alan H. Winkle, Investment Officer Richelle Sugiyama, Deputy Attorney General Brad Goodsell, Financial Officer James Monroe and Management Assistant Joanne C. Ax were also in attendance. The electronic projection of materials and documents discussed in the meeting was handled by Betsy Griffith. Other persons attending portions of the meeting were:

Rod MacKinnon  
Drew Black  
Dona VanTrease  
Brent Nye  
Bill Palumbo  
Amy Castro  
Dennis Fitzpatrick  
Kevin Jones  
Karl Malott  
Kent Nelson  
Sherm Furey  
Mike McPeek

Mountain Pacific Investment Advisors  
DB Fitzpatrick & Co.  
IPEA  
Boise Schools  
MPIA  
LSO  
DB Fitzpatrick & Co.  
DB Fitzpatrick & Co.  
Professional Firefighters of ID  
Office of the AG  
Office of the AG  
Office of the AG

## EXECUTIVE SESSION:

Citing Idaho Code §67-2345(b) which allows the Board to discuss personnel issues privately, by motion duly made by Trustee Hayes, seconded by Trustee Cilek and unanimously approved by members present, the Board convened in Executive Session at 8:32 a.m. They reconvened in open session at 8:45 a.m.

Chairman Olson said that during the executive session Trustees had discussed whether the three employees whose salaries are set by the Board should receive a merit increase in February from funds appropriated by Senate Bill 1263. He said the Board will wait until the next regular personnel evaluation for those employees to determine any additional merit increases.

## MINUTES

Approval of the Minutes: By motion duly made by Trustee Ahrens and seconded by Trustee Hayes, the Board unanimously approved the minutes of the December 7, 2005 meeting.

## PORTFOLIO

Monthly Portfolio Update: CIO Robert Maynard reviewed the updated PERSI Investment Report dated January 22, 2006. That report shows the current value of the fund as \$9,419,585,439 with a change in market value for the fiscal year of \$857,664,697, a 9.8% return. In his report and presentation, Mr. Maynard said that the first week of the new calendar year finally brought the legendary "January effect" back into play with strong global equity markets, although with a recent correction that has moderated that strong beginning. The major market action continues to revolve around perceptions about the length and magnitude of the Federal Reserve increases in the short-term interest rates, but a continued strong economy and good corporate profits (with some recent tech weakness) have supported the equity markets, while bonds at least held their own as concerns about incipient inflation eased and the end appeared in sight for Fed rate hikes. Emerging markets and the Pacific (primarily Japan, until recently) equity markets are the best performing capital markets for the fiscal year-to-date.

Bernstein Emerging, Zesiger, and Genesis are the leading performers in absolute returns, although Bernstein Emerging and Genesis are also the weakest against benchmarks. Zesiger, Donald Smith, and Bernstein Global are the best performers against benchmark. The bond accounts provide little to cheer about either absolutely or relatively. Tukman and Mountain Pacific continue with their struggles. Private equity continues to have good absolute and relative performance.

Of PERSI's major strategic leanings, global equity managers and emerging markets are helping the most, relative to the fund's strategic benchmark, and few policies are hurting. Overall, the fund is ahead of the strategic benchmark for the fiscal year by 2.76%.

He told the Trustees that the report is designed to function as a tracking report. In the event an investment is going wrong, it will be easily seen in the comparisons and graphs and details can then be provided. In the next couple of years, Mr. Maynard expects to position the fund to increase private equity and private real estate allocations, expecting some good values to become available. He mentioned a goal of around 5% of our portfolio for that sector. The Olympic partnership is being expanded with some good opportunities. And while Don Koll is still challenged by a serious health condition, the company is adding individual business parks within their area of expertise. Mr. Maynard said he does not plan to add hedge funds to the PERSI investments.

Callan is reviewing PERSI's 55/15/30 allocation to see if it is still a reasonable allocation. They are also looking at our strategic leanings to ensure that they are adding value in theory as well as in practice. Their report is expected at the April or May meeting.

Other Business: Chairman Olson thanked Mr. Maynard for agreeing to speak to the Idaho Economic Forecast Committee, saying it was a tribute to him to be allotted a full hour on their agenda.

Investment Manager Comments: Chairman Olson invited managers who were present to comment on the markets and the economy. Dennis Fitzpatrick introduced Kevin Jones, a new member of their team. He expects energy prices to stay high for the next two to three years and for fixed income returns to be good in 2006. Rod MacKinnon discussed the yield curve and a possible economic slowdown. Mr. Maynard briefly discussed the sale of Albertson's. Brandes did have Albertson stock; none of the PERSI private equity partnerships were successful bidders in the sale.

#### EXECUTIVE DIRECTOR

Indemnification: Executive Director Winkle told the Board that he and Deputy Attorney General Goodsell have been working with Sherm Furey, Kent Nelson and Mike McPeck from the Idaho Attorney General's office on the indemnification issue. Chief Deputy Furey said two of the three major issues are being dealt with quickly, one through a Memorandum of Understanding, and the other with amendments to the risk document. The issue of defense and indemnification in situations not addressed by the tort claims act is being carefully reviewed to assess unintentional negative effects on other state agencies if a change or clarification is made. Legislation will likely be needed to address this issue and to clarify how the

PERSI indemnity statutes interact with the tort claims act. Trustees told the AG representatives that changes to the current laws are necessary in order to attract and keep competent Board members. Trustees want to review the proposed language and would also like former Trustee Dennis Johnson, an expert in insurance issues, to review any proposed solution.

Status Update: Mr. Winkle reviewed his status report memorandum dated January 19, 2006. A detailed report on the Business Process Re-Engineering Project had been provided by Deputy Director Doner.

IT Systems Analyst Stacy Jones, together with Mr. Winkle, will take over the tracking of the BPR project as Mr. Doner is retiring.

Callan continues work on the RFP for Choice Plan Record Keeper. Two responses for the Disability Claims Adjudication RFP are ready for review. The target date for awarding that contract is the second week of March.

Copies of the new annual report were distributed to Trustees. Mr. Winkle said we are trying to reduce costs by making the publication easier to produce. We are using fewer hard copies and are making it available on our website and on CD's.

Legislative Update: Five PERSI bills have been printed and will be scheduled for hearing in the Senate Commerce and Human Resource Committee. Another proposal is awaiting committee hearing. Members of the Petroleum Board are interested in opting out of PERSI to avoid conflict with federal tax regulations. There is also continued interest in allowing retirees to return to work without stopping their PERSI benefit. When legislation is printed on that issue, we will add it to the weekly status tracking memorandum that is sent to the Trustees and posted on the PERSI website for our interested members. On February 27, Mr. Winkle will provide a thirty-minute PERSI update before JFAC. This is not the year for PERSI to present a formal budget presentation to that committee.

Mr. Winkle will speak at a school district conference on the PERSI school sick leave program. Judy Aitken will represent PERSI on February 7 on a panel with representatives from workers compensation and social security. The presentation will help police chiefs and sheriffs understand how the three agencies work together in police disability situations.

#### LEGAL:

Fiduciary Review: Deputy Attorney General Brad Goodsell presented his annual review of the issue of fiduciary responsibility with the Trustees. Fiduciary responsibility is something to be concerned about, as a trustee is a fiduciary of the highest order. He is required to observe meticulously the fiduciary relationship, to exercise utmost good faith in handling the funds in his hands, and in all respects to exercise a high standard of conduct and fidelity in respect to administration of his trust. Mr. Goodsell discussed the three primary duties: Duty of Loyalty, Duty of Impartiality, and Duty of

Prudence. He concluded with slides showing the consequences of breach of these duties. Regarding their fiduciary duties and governance, he said governance policies are a tool for trustees to focus on major issues facing the system and to define responsibilities. Trustees also need to take steps to assure that policies are followed.

#### FISCAL

Fiscal Update/ Travel, Administrative, Portfolio Reports: The Travel, Administrative and Portfolio reports had been provided previously to the Board. Because December 2005 had three pay periods, those expenditures were higher than the ordinary one-month amount. Trustee Cilek asked for percentage information from the fiscal year 2004 regarding PERSI administrative costs. CFO Jim Monroe will provide that information to him at the next meeting. Trustee Hayes will be attending the Callan Associates Charter Investments Institute meeting later in the month. Chairman Olson thanked Trustees for taking time to attend educational conferences.

#### DC PLAN:

Choice Plan Statistics: DC Plan Manager Diane Berg reviewed the performance numbers which showed that voluntary member contributions increased by 17.7% in 2005. The average account balance is \$4,287.97. Fund rollovers into the plan increased by 45.2% in 2005 while fewer members rolled their money out of the plan than in the previous year. Participation increased to 8,469 members, a 10.6% increase over 2004. This represents 13% of members eligible to participate in the 401(k). Plan assets have reached more than \$203 million, up 22.16 % from 2004. Ms. Berg said calendar-year-end results will be presented by record keeper ACS at the February meeting. Trustee Ahrens asked whether certain employer groups have higher participation than others. Mr. Winkle said the state has the highest participation, perhaps because counties and school districts have other 457 and 403B plans they have used for years. Trustee Ahrens said it is important to make eligible members aware that they may use more than one investment vehicle at a time for retirement savings. Mr. Winkle agreed, saying that the IRS allows higher tax deferred totals when combinations of different vehicles are used.

OTHER BUSINESS: Deputy Director John R. Doner who started with PERSI in December 2001, is retiring. Chairman Olson thanked him for his contributions to PERSI handling the day-to-day management challenges. His work has allowed the Executive Director to focus on strategic and legislative issues which has benefited our agency and our members. The Chairman presented Mr. Doner with a plaque commemorating his 34 years of service to the State of Idaho. Following the meeting, staff and friends congratulated Mr. Doner.

FUTURE MEETINGS:

February 28, 2006, 8:30 a.m., Boise - PERSI office

March 28, 2006, 8:30 a.m., Boise - PERSI office

April 25, 2006, 8:30 a.m., Boise – PERSI office

Adjournment: At 10:42 a.m., there being no further business to come before the Board, the meeting was adjourned.

Jody B. Olson  
Chairman

Alan H. Winkle  
Executive Director